

January 10, 2006

Dear Hoosier Customers:

One year ago Governor Daniels was sworn in as Indiana's Governor, and today marks the closure to year one. As we reflect back on 2005 and the creation of the Indiana Finance Authority (IFA), we are proud of our many accomplishments in the Business Finance, Environmental Finance and State Finance divisions of the IFA. At the same time we are cognizant of the road ahead of us and the need for continued improvement in our processes and on our focus: the identification and implementation of efficient and effective financing solutions to facilitate state, local government and business investment in Indiana.

One year ago there were 13 State agencies with separate decision making and borrowing authority that issued bonds and interfaced with the financial markets. One of the Governor's many successful 2005 legislative agenda items was to better coordinate and organize the State's bonding authorities. With the successful passage of Senate Bill 578, on May 15, 2005 the Indiana Development Finance Authority, the State Office Building Commission, the Indiana Transportation Finance Authority, the Recreational Development Commission and the State Revolving Fund were consolidated into the new IFA. In addition, many other State bonding agencies are now legislatively directed to work with the IFA to issue bonds so that the State has essentially reduced the number of bonding agencies from 13 to 2 (our partners at the Indiana Bond Bank being the other). This consolidation has provided economic and management efficiencies to enable the State to communicate with a single voice with the various participants in the financial markets while saving taxpayer dollars for Hoosiers.

With respect to the many Business Finance Programs administered by the IFA including the Capital Access Program, the Loan Guaranty Program, the Tax-Exempt Bond Programs and the Volume Cap Program, we have better maximized the use of each program as well as renewed our focus on making these programs as efficient, user-friendly and cost-effective.

Further, with the consolidation of the IFA came the creation of two new programs from Governor Daniels' economic growth agenda - the Shovel-Ready Sites and Broadband Finance programs. Shovel-Ready is a new State program designed to certify sites as "ready for development." This program is designed to help companies locate a property site quickly and allows for a given company to develop the site quickly. This provides a competitive advantage for the State as it competes against other states and gets Hoosier jobs here faster. The Broadband Finance program seeks to improve Indiana's primary broadband network and encourage private sector businesses to provide service to currently unserved parts of our State. Such advanced telecommunications infrastructure is critical for economic development and the quest to create new jobs and raise income levels for all Hoosiers. The IFA completed its first Broadband Finance deal in December lighting 42 previously dark fibers which will help broadband connectivity in Northcentral Indiana. Also in 2005, the IFA made an important commitment to the Indiana Seed Fund through its investment in a start-up Indiana medical device company. In all, the Business Finance Programs created 936 new jobs for Hoosiers in 2005, a 33% increase over calendar 2004.

In the area of Environmental Finance, 2005 has been full of change to the IFA's Brownfields and State Revolving Fund programs which provide financial assistance to Indiana companies and local units of government for the clean-up of various brownfields sites and contaminated drinking water and waste water systems. In an effort to promote better service and greater efficiency, staff members of the former Indiana Development Finance Authority, the Indiana Department of Environmental Management and the State Budget Agency assigned to environmental programs were consolidated in 2005 moving from three separate organizations into one cohesive Environmental Finance team.

With respect to the Brownfields Program, because local communities rely heavily on the coordinated efforts of both federal and state entities, one of the primary goals for the Environmental Finance group has been the restoration of U.S. Environmental Protection Agency (the "EPA") confidence in the State. To-date, feedback from the EPA has been very positive. In fact, in November the first grant request for an EPA revolving fund loan grant was submitted to the EPA on behalf of the Brownfields Program. Also in 2005, as part of the Brownfields Program, the IFA leveraged an estimated \$37 million in investment that will create nearly 400 new jobs as twenty-three Site Assessment Grants totaling \$503,516 were awarded, six Petroleum Remediation Grants totaling \$486,422 were awarded and two Low-Interest Loans totaling \$1,750,000 were closed. In addition, as related to the State Revolving Fund program, in 2005, a combined twenty-five drinking water and waste water loans totaling \$203 million were closed which amounted to \$37 million in cost savings to local communities.

Some of our most significant milestones in 2005 have been reached under the IFA's State Finance umbrella. The IFA has sought to rebuild relationships with bond rating agencies Standard & Poor's, Moody's, and Fitch which in 2004 had lowered the State's credit quality, thereby increasing State borrowing costs. After much communication, in June Standard & Poor's upgraded the outlook on Indiana's credit rating from stable to positive citing the first balanced budget in ten years that the Governor and OMB Director Schalliol were able to push through the General Assembly.

In the fall of 2005, after much negotiation, the IFA implemented its plan of finance for the new Indiana Stadium and Convention Center projects. These are historic transactions not only in terms of State economic development efforts, but for the IFA itself. As the financing arm of the State, the IFA, in connection with these projects, executed the first interest rate swaps in State history. In doing so, the IFA locked in interest rates on the Stadium and Convention Center expansion that will allow the State to build these projects using just \$40 million of new local taxes, nearly half of the \$70 million that was initially estimated, saving Hoosier taxpayers hundreds of millions of dollars over the 30-year term.

Also, in 2005, for the first time, the IFA developed and adopted important investment, debt-management and swap policies, further emphasizing the IFA-led focus on State fiscal responsibility. Further, the IFA worked hard in 2005 to promote better coordination and collaboration between the State and public university public finance officials. To this end, the IFA staff convened for the first time a "Swaps 101" course aimed at familiarizing university officials with financing tools. We're told this was a first of its kind meeting where State officials and public university debt managers came together to share best practices.

Of note as well, the five formerly separate debt-issuing entities the IFA now comprises each underwent an audit conducted by outside accounting firms, all of which resulted in unqualified opinions. Further, in an attempt to uncover cost-savings at every turn, in 2005 the IFA sold unneeded cars, recovered 3,000 paintings it owned being held in Michigan, cancelled its cable television subscription, stopped paying for private parking garage spots, cancelled and renegotiated its office space leases, and rebid professional services in the housing finance area which when added to the personnel and rent savings approaches \$1 million in annual total cost-savings.

Beyond our above-described core areas of operation, the IFA has been busy with additional projects in 2005. For example, the IFA now oversees the administration of the Indiana Health and Educational Facility Financing Authority (the "IHEFFA"), a composite of the former Indiana Health Facility Financing Authority and the Indiana Educational Facility Authority. In 2005, the IHEFFA financed 20 hospital expansions and 7 long-term care facilities.

Initially approved by the Indiana legislature in 2002, funding to complete "Project Hoosier SAFE-T," a statewide, interoperable, wireless public safety communications system for Indiana local, state, and federal first-responders and public safety officials, was also approved by the IFA in July 2005. Once fully installed, Project SAFE-T will provide a much-needed and critical communication network for public safety officials state-wide.

We encourage you to spend some time on our website and get to know the new IFA. While we are proud of our first year, there is still much to do growing Hoosier jobs, improving the Indiana's quality of life with cleaner land and waterways, and achieving financial excellence for the State that ultimately saves taxpayers money. We will continue our relentless pursuit of these goals in 2006 and beyond. Thank you for your interest in the Indiana Finance Authority.

Best regards,

A handwritten signature in black ink, appearing to read "R. Kitchell", written over a horizontal line.

Ryan C. Kitchell
Indiana Public Finance Director